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SUBJECT: JOB LOSSES THREATEN POLICIES ON CLIMATE PLAN AND
LABOR LAW

11. (SBU) SUMMARY: Rising unemployment will be the Rudd government's biggest political problem in 2009. The opposition Liberal-National Coalition, traditionally associated with strong economic management, believes an increase in joblessness could erode political support for the Australian Labor Party (ALP). The weakening economy will also put pressure on the Senate to carefully consider the timing and details of two of Prime Minister Kevin Rudd's key policy initiatives for 2009: climate change and industrial relations. Rudd is engaged in a political juggling act: urging wage restraint from the ALP's union base and warning voters that unemployment will get worse, while also trying not to talk the economy down. END SUMMARY.

THE GAME HAS CHANGED

12. (U) Rudd confronts drastically different economic circumstances than those he inherited. Economic growth, rising unemployment, falling consumer confidence, and tightening credit are now the dominant economic issues. Before the election, promising action on climate change and making industrial relations policy more worker-friendly were political winners for Kevin Rudd and the ALP. Now, however, the predominant issue for both an emissions trading scheme (ETS) and the new industrial relations law is certain to be their effect on unemployment levels. The labor legislation has passed the House of Representatives and the ETS is expected to be introduced by mid-year, but both bills must win Senate approval, where the Government needs the support of the Green Party and two independents, or the Coalition, to pass legislation.

CLIMATE CHANGE A PROBLEM

13. (SBU) While support for an emissions trading scheme remains strong, the public is increasingly nervous about the economy. Rudd's emissions trading target, with only a five percent cut from 2000 carbon emissions levels by 2020, initially widely lauded as politically astute, has upset the Greens while industry is grudgingly working to ensure that any eventual ETS scheme takes a minimal toll. While some of our contacts have indicated that some sectors think the current plan is the best deal industry is likely to get, others continue to argue that the threat to employment is enough to justify delaying the start of the scheme. Australian Industry Group head Heather Ridout, who is close to the Government, believes the deteriorating economic conditions justify delaying the ETS. The Minerals Council of Australia claims the proposed ETS is much tougher than those operating in Europe and will cost jobs. The Coalition is warning of jobs being exported and Independent Senator Nick Xenophon has "very significant concerns." So far, Rudd has said the Government remains committed to a 2010 start date for the ETS, and maintains the Government has "got the balance right." The Coalition, which backed emissions trading at a similar projected cost when in government, has the slowing global economy and the specter of unemployment to

turn to if it decides to oppose the legislation in the Senate.

WILL THE NEW LABOR LAW COST JOBS?

14. (SBU) The Rudd Government's industrial relations legislation (Fair Work Australia), a centerpiece of its campaign promise to scrap the Howard Government's hated, pro-business WorkChoices laws, has passed the House and is before the Senate. The bill proposes more benefits to workers and unions at the expense of employment flexibility for employers. Business groups have long warned that the Government's proposed changes will cause job losses and act as a disincentive to hiring but this is becoming a more powerful argument given the weakening economy. Deputy Prime Minister and Employment and Workplace Relations Minister Julia Gillard has been criticized for the apparent lack of economic modeling on the employment impact of the changes. At every opportunity, the Opposition is questioning the Government's commitment to protecting jobs. Although the Coalition has said it accepts that the WorkChoices laws are dead, it will seek amendments to the Fair Work Bill in the Senate. Independent Senators Xenophon and Family First Senator Steve Fielding, whose votes will be needed to pass the legislation in the absence of Coalition support, are sympathetic to the concerns of small business, and will also be looking for changes.

HISTORY REPEATS ITSELF?

15. (SBU) COMMENT: Some observers argue the economic security under former Prime Minister Howard created a "prosperity paradox" which gave voters the confidence to focus on issues

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other than jobs and the economy, and turn to a fresh leader. Notwithstanding Rudd's economic stimulus measures, Australia's economy is largely at the mercy of global forces. The political risk for Rudd is that unemployment keeps rising despite his interventions.

16. (SBU) COMMENT CONTINUED: This will be a defining year for Rudd's heir apparent, Gillard. Despite her immense political skills, she has few policy achievements to her credit. As Minister for Employment and Workplace Relations, she will take a lot of the heat if unemployment keeps rising. Unemployment has risen only slightly over the past several months, but official numbers have not been released for January, when we expect evidence of bigger losses to appear. However, Access Economics predicts an unemployment rate of 7.5 percent by the middle of 2010, which is an election year.

17. (SBU) COMMENT CONTINUED: As in November 2007, the ALP was elected in 1929 and 1972 after long periods in the wilderness. In both cases, the ALP assumed office when the global economy was collapsing, and lost office after just three years. Rudd and the ALP are significantly ahead of the Coalition in every national poll, but the deteriorating economy will almost certainly have a political impact.

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